

## American Indian Land Tax Credits

**Indian Lands Tax Credit Extension Update** - Wednesday, Dec. 20, 2006, President George W. Bush signed the *Tax Relief and Health Care Act*, which extends the former Indian lands and employment tax credits through 2007. Also, any business or tax activity occurring in 2006 will be covered.

Businesses locating or expanding in these areas benefit by accelerated depreciation of investment and by employment tax credits when employing tribal members or their spouses.

Federal legislation clarifies the location of special American Indian lands that qualify for related tax credits benefiting new and established businesses. The *Tax Relief and Health Care Act of 2006*, signed by President Bush Dec. 20, includes extension through Dec. 31, 2007 of the tax incentive for businesses locating on former Indian lands. Qualifying lands may include previous tribal land which may have been transferred to new ownership.

The federal employment tax credit is applicable to businesses located in the qualifying areas that employ enrolled American Indians and their spouses.

### Benefits

- Accelerated Federal Property Depreciation Schedule.
- Federal Employment Tax Credits of up to \$4,000 per qualifying employee per year.
- Savings of up to 35% to 40% in depreciation of equipment.

### Depreciation Incentives

The depreciation incentive provides a shorter recovery period of approximately 40% for most non-residential depreciable property. The property must be placed in service during calendar years 1994-2007 and must be used in an active trade or business which includes the rental of real property for such purposes. This federal tax deferral can substantially increase the after-tax income of businesses.

### Employee Credit

The employment tax credit is 20% of increased wages over those paid to qualified individuals in 1993, including health insurance premiums paid by the employer. Wages of individuals eligible for the tax credit may not exceed \$30,000, indexed after 1993, and the credit is applicable to new wages of up to \$20,000 for years 1994 through 2007. The indexed wage level for 2005 is \$42,000. IRS Form 8845 is used for computing and claiming the credit.

In the case of:	The applicable recover period is:
3-year property	2 years
5-year property	3 years
7-year property	4 years
10-year property	6 years
15-year property	9 years
20-year property	12 years
Non-residential real property (39 years)	22 years

**Example:** The regular depreciation on a commercial building with a cost of \$1 million would be \$25,641 annually for 39 years. The accelerated depreciation would be \$45,454 annually for 22 years. This would substantially increase the taxpayers' present value of available dollars.

### Example:

Company A has a qualified employee to whom the store pays \$15,000 in total wages and health insurance in 1993. In 1994, the company pays the same person \$26,000. The credit is computed as follows:

1994 Wage/Health Insurance (maximum allowed by Federal Government)	\$20,000
1993 Wage/Health Insurance	\$15,000
(Increase)	\$ 5,000
Rate of Credit	x 20%
Indian Employment Credit	\$ 1,000